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Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

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The Polish Economy: Performance Under Martial Law and Prospects

Summary

Poland turned in a mixed economic performance in 1982 under the controls of martial law. Its principal successes were a halt in the steep three-year decline in industrial production and a hard currency trade surplus of about $350 million with the West. At the same time, despite an above-average grain harvest, agricultural output dropped. Moreover, the state could not procure enough grain for human consumption from private farmers who were reluctant to conclude sales agreements because of their own need for livestock feed. Supplies of many foods and consumer goods for sale in state markets declined. In contrast to earlier years, Poland's CEMA allies were stingy about providing aid, and despite a private bank rescheduling, Poland fell further behind in meeting its massive debt obligations to the West. [redacted] 25X1

The regime's successes were mostly the consequence of tight controls on the populace and the economy. The regime compelled people to work by militarizing coal mines and other major industries, would not allow protests against the 100 percent increases in consumer prices, and closely regulated the allocation of scarce industrial inputs. [redacted] 25X1

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Poland faces another difficult year in 1983. Fulfillment of Warsaw's modest plans to increase national income, agricultural production, and industrial output will depend largely on the country's ability to earn hard currency in order to purchase vital Western imports. If Warsaw imports the same level of goods--keeping industrial imports as a priority--and runs the same surplus in 1983 as in 1982, the country could meet its industrial growth target. Continued militarization of some enterprises, restrictions on workers changing jobs, and extended working hours in some factories will help. The regime may not meet its moderate goals for agriculture, however, because livestock herds declined late last year and winter crop prospects are poor. [redacted] 25X1

Poland's external financial problems will become even more serious in 1983. Debt service, including arrearages from 1982, will total more than $13.9 billion in 1983 or about double the level of current account receipts. Since the outlook for new credits is poor and the Poles, at best, will run only a $700 million hard currency trade surplus, most of the amount due will have to be covered by formal rescheduling agreements or continuing toleration of arrears by Western governments. [redacted] 25X1

We believe that during the next three years overall economic performance will recover some of the ground lost since 1979-80, but that overall economic performance will remain below the levels of 1978, when the country recorded its highest GNP in the Communist era. Moreover, the chances for a return to the 1978 level of output by 1990 will depend heavily on a number of factors that are difficult to measure. On the plus side, Poland possesses great amounts of underutilized human and capital resources. It could make gains if economic reforms are broadened and the Soviets continue their assistance. A lack of sufficient debt relief and Western credits, however, most likely will be the greatest hindrance to economic growth. Required debt repayments will not fall much by 1990 and may even increase as reschedulings push payments to the end of the decade. [redacted] 25X1

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In addition, the regime must contend with deep seated worker distrust, bottlenecks in the transportation and energy sectors, and inadequate investment. Agriculture will remain a problem and one disastrous crop--such as in 1980--could temporarily depress consumption to the levels of the early 1960s. With these difficulties, living standards will not quickly regain previous high levels, helping to depress worker productivity severely. [redacted] 25X1

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The Economy Before Martial Law

The Polish economy was in an extremely weak position when martial law was imposed during December 1981. The level of GNP declined gradually during 1979-80 and then dropped precipitously in 1981. We estimate that real GNP fell 11 percent during 1979-81; industrial production, 17 percent; and agricultural output, 16 percent. In 1981 alone GNP fell nearly seven percent--the steepest drop in the postwar period--and industrial output dropped 15 percent (see table 1). The economic decline in 1979-81 was mainly the result of increasing external financial pressures, chronic problems in the energy and transport sectors, growing labor unrest, and a series of poor harvests. The regime's failure at the same time to respond effectively to mounting problems--by imposing a domestic austerity program, for example--helped worsen the situation. While the supply of goods declined in the state markets because of poor harvests, production shortfalls, and the siphoning off of goods into the black market, consumer demand grew because of increased wages and high expectations. The dramatic decline in 1981 was caused by a sharp drop in Western imports and investment (of 20 and 25 percent, respectively) largely due to a lack of Western credits; an 18 percent decline in productivity; and a 5 percent reduction in the length of the average workweek insisted upon by Solidarity labor movement.[1] 25X1

<u>External Financial Problems</u>. During 1978-81, Warsaw's total debt increased from $14 to $25 billion, and its annual debt financing requirement mushroomed, amounting to $5.8 billion in 1978, $7.8 billion in 1980 and $10 billion in 1981. The country ran annual current account deficits of about $2.75 billion from 1975 to 1980, and about $2.25 billion in 1981. Warsaw's inability to increase hard currency exports deepened its financial problems and it failed to secure enough new credits because of increasing resistance by Western lenders. Unable to cover its increasing debt service obligation, Poland in 1981 had to reschedule debt payments with Western governments and commercial banks. Poland's limited hard currency earnings were used increasingly to service its burgeoning debt, but the earnings fell far short of covering the financing requirement, even after rescheduling. 25X1

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On the eve of martial law, Polish financial data [redacted] 25X1 [redacted] showed that the country needed total relief from its 1982 debt service payments of $10 billion and an additional $1 billion to $2 billion in new loans. But, rescheduling talks with Western governments and private banks had broken down, and Poland's major sources of economic assistance were unwilling to extend much new credit. West European governments were constrained by tight budgets, commercial banks were unwilling to increase their exposure, and Moscow was taking a tough stand in negotiating the 1982 trade agreement. [redacted] 25X1

Industrial Output Down. After declining 1.0 percent annually during 1979-80, industrial output plummeted 15 percent in 1981. Shortages of Western industrial and raw materials due to import cutbacks contributed greatly to the decline in output. Imports of metallurgical and mineral products, for example, fell by 18 and 15 percent respectively in 1979-80 and then dropped again in 1981 by 53 percent and 35 percent each. Imports of machinery and spare parts from the West declined by 30 percent in 1978-80 and by an additional 40 percent in 1981. Increasing worker unrest--including intermittent strikes--in response to deteriorating market supplies, poor working conditions, and political grievances also contributed to the drop in industrial production. We estimate that labor productivity per worker stagnated during 1978-80 and then declined by 18 percent in 1981, partly because of the frequent, lengthy meetings of workers to discuss union activities. Moreover, total hours worked in industry in 1981 fell by 8 percent, largely because of increased absenteeism and the government agreement with Solidarity to reduce the work week. [redacted] 25X1

The number of hours worked in the coal mines--which provide the main source of both domestic energy and hard currency earnings--dropped even more severely than other sectors in 1981. A government accord with Solidarity reduced the compulsory work week for miners to 37.5 hours (4.5 hours below the national norm) and eliminated overtime work on Sunday which, although voluntary, had become virtually compulsory. Additionally, a protracted dispute between Solidarity and the government over the rules governing overtime work on Saturday and shortages of consumer goods to buy with their earnings prompted many miners to stay home on Saturdays. As a consequence, coal output fell 16 percent in 1981, and exports plunged to 15 million tons, compared to 31 million tons in 1980 and 41 million tons in 1979. [redacted] 25X1

Agricultural Problems. In 1979-81 Poland experienced a series of poor grain and potato harvests and a decline in livestock production (see table 2). In addition to bad weather, factors driving down output included the regime's continued lack of investment in the agricultural sector and its vacillating

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policies toward the private farmer.[2] Despite promises to support private farmers, Warsaw's investment in agriculture averaged only about 15 percent of total state investment during this period. And in 1980 and 1981, when balance of payments problems caused Warsaw to cut total investment sharply, investment in agriculture dropped commensurately. Moreover, the regime continued to discriminate against private farmers, refusing to sell them land and inputs and charging them higher prices than state farms. [redacted] 25X1

Warsaw imported between 5 and 8 million tons of grain and fodder annually during 1978-81 to try to satisfy domestic demand. The value of these imports, financed mainly through credits, grew from $700 million in 1978 to $1.2 billion in 1981, and added to the debt. The quantity of meat available in state retail markets, however, did not keep up with growing consumer demand and even fell 20 percent in 1981. Farmers preferred to sell meat at higher prices in the black market rather than to the state. [redacted] 25X1

<u>Consumer Problems</u>. While output dropped in the industrial and agricultural sectors, state retail markets were in increasing disarray in 1979-81, and by the end of 1981, had virtually ceased to be an effective system for the distribution of goods. Workers opposed government plans to strike a better balance between supply and demand by raising some retail prices. Regime attempts to raise meat prices in July 1980 provoked a series of strikes nationwide that eventually led to the creation of Solidarity. [redacted] 25X1

The new union imposed additional strains on the economy by successfully demanding large pay increases, thereby increasing consumer demand and inflationary pressures. Retail supplies of food, meanwhile, dropped because of poor harvests and failure of imports to cover the gap. Availability of foods in state stores further declined because farmers increasingly ignored delivery contracts with the state and sold their goods instead on lucrative black markets. The imbalance between supply and demand caused long food lines, panic buying, and beginning in 1981, meat rationing. The black market in consumer goods and foods grew enormously; by 1981, according to government estimates, about 25 percent of total meat supplies was sold through the black market. There was increased speculation in Western currencies as

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consumers sought to buy more goods in regime-sponsored hard currency stores. During 1981, the dollar value of the zloty on the black market was only 5-7 percent of its official rate of exchange: 450-600 zlotys per dollar versus 30 zlotys to the dollar. 25X1

<u>Inadequate Policy Measures</u>. During 1978-81, the authorities failed to formulate a stabilization program that could bring the deteriorating external financial situation under control or to find solutions to major domestic economic problems. The regime's draft economic plan in 1981 was so inconsistent--some industrial and export goals, for instance, were set at ridiculously high levels in light of available resources--that it was rejected by parliament and revised substantially before its eventual passage. The regime reduced industrial imports from the West by 12 percent in 1979-80 and 40 percent in 1981 and it cut back investments by 19 percent in 1979-80 and 22 percent in 1981. It failed, however, to relieve transportation and electric power bottlenecks, alleviate supply problems in agriculture or industry and close the gap between supply and demand in the domestic market. Subsidies of artificially low food prices grew annually, comprising 25 percent of the state budget by 1980. 25X1

Instead, the regime often implemented policies that were piecemeal and ineffective. According to the Polish press, some of the import cuts were made arbitrarily, and production sometimes stopped for lack of an inexpensive part. The regime kept pouring funds into some ill-considered industrial projects throughout 1979-80. For example, work continued on the huge Katowice steelworks even though the site lacked adequate transportation and a skilled labor force. 25X1

An experimental economic reform introduced in January 1981 cut in half the number of central regulations imposed on enterprises and expanded enterprise decisionmaking in areas such as setting wages. These reforms, however, were successfully ignored or even abused by many managers. Some enterprise directors, for example, refused to link wages to production levels at a time when output was declining because of raw material shortages. Instead, wages often increased without regard to productivity. Additionally, some plant managers were confused about the timetable for implementing reform measures, and the central authorities were reluctant to give up their power.[3] 25X1

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The Martial Law Record

The martial law regime scored some important economic successes during its 12 months of rule (see table 2). The government halted the decline in industrial production, and ran a hard currency trade surplus of about $350 million,[4] mostly because of tough martial law controls on the populace and the economy. The regime used the sweeping powers granted it by the martial law decree to militarize the coal mines and other major industries, forcing workers to comply with management orders as in wartime. The traditional, longer workweek was reimposed, and workers who stayed away from the job or who caused problems were subject to jail sentences or other penalties imposed by military tribunals. The number of "operational programs" which centrally allocate scarce resources to key industries, increased to cover over 50 percent of industrial output. [redacted] 25X1

According to Polish statistics, the consumer austerity program imposed under martial law reduced living standards significantly, with the index of retail prices increasing over 100 percent and real wages dropping about 23 percent. Real investment was further cut by 20 percent. These austerity measures helped the regime reduce imports from the West by 23 percent and increase hard currency exports by 4.0 percent on a customs basis. The measures may have also helped the Poles obtain better rescheduling terms from private banks than in 1981, including a recycling of one half of their interest payments--about $500 million--in the form of short term credits. At the same time, the refusal of Western governments to negotiate a rescheduling agreement with Poland--because of the imposition of martial law--provided Warsaw some important de facto debt relief. [redacted] 25X1

The regime also encountered some important failures. In part, because it did not garner any significant popular support, labor productivity remained depressed. Agricultural output dropped more than 4 percent, and demand for food and manufactured consumer goods still outstripped supplies. The amount of goods

4 Polish data on foreign trade differ substantially. Payments data, most relevant for analysis of the external financial position, show a surplus of $350 million. On a customs basis, the surplus in trade with the West was more than $1 billion. Customs data more accurately reflect the flows of goods in and out of the Polish economy. We have not been able to explain the large discrepancy. [redacted] 25X1

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for sale in state markets decreased by 17 percent mainly because of the fall in production of consumer goods and food. Unlike 1981, the black market did not play a key role in distribution. In particular, difficulties in procuring grain from private farmers raised the possibility of bread shortages and prompted the regime to use precious hard currency to import additional supplies. The government made little progress in decentralizing economic decisionmaking as provided for in its reform program, largely because central controls were tightened under martial law, but also because of resistance from party and government officials. Moreover, despite the private bank rescheduling the Poles fell further behind in meeting their massive debt obligations to the West. 25X1

<u>Industrial Output Stabilizes</u>. Despite the sharp cutback in imported supplies, overall industrial production in 1982 declined 2 percent from the 1981 level (see figure 1).[5] Results differed sharply among industrial sectors, with the extractive industries increasing output by 11 percent while manufacturing output dropped 3 percent. The regime's greatest success was in boosting coal production by 16 percent over 1981, with output reaching 189 million tons, compared to 163 million tons in 1981. We believe the regime was able to break the coal bottleneck by:

- establishing a mandatory six day workweek,
- militarizing the sector and imposing harsh penalties for absenteeism and strikes;
- increasing the labor force by recruiting more civilian workers and deploying soldiers to the mines;
- granting huge wage increases, which raised miners' incomes to more than twice the industrial average; and
- providing miners with greater supplies of consumer goods and foodstuffs, including larger meat rations.

Production in other mining industries also increased in 1982 mainly because their output was not dependent on Western imports. The Polish press reported that the output of copper ore was 4 percent above the 1981 level, while the production of lignite, lead and silver also surpassed the previous year's low level. Over half of copper and silver production was exported, mainly to the West. 25X1

We believe Polish officials are correct in claiming that the drop in manufacturing output in 1982 stemmed largely from shortages of Western inputs. A decline in imported grain and other agricultural products from the West in the first three quarters of 1982 compared to the same period in 1981 contributed

[5] Statistics used in the compilation of all tables are directly from or based upon official Polish data. 25X1

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to a 38 percent drop in fodder production. Production in the electrotechnical and transport sectors declined 14 and 20 percent, respectively, as Western imports of machinery and spare parts fell over one-third. Output of the textile and leather and shoe industries dropped by about 15 percent each, while Western imports for light industry declined 45 percent (see figure 2). Shortages of skilled labor in some industries exacerbated production problems. The overall number of industrial workers dropped five percent during 1982 compared to 1981 because of new liberal early retirement policies which were passed by the regime in 1981 at the initiation of Solidarity. [redacted] 25X1

<u>Agricultural Output Drops</u>. According to Polish statistics, overall agricultural output decreased 4.5 percent in 1982 compared to 1981. Crop output was down 3.3 percent while output of livestock products fell 5.8 percent. Largely because of favorable weather Poland had a good grain crop of 21 million tons--7 percent more than in 1981 and 9 percent greater than the average crop over the last five years. But output of the three major non-grain crops dropped below 1981 levels. The harvest of potatoes--an important livestock feed--was 25 percent below the previous year, while production of rapeseed--a source of vegetable oil--and sugar beets was 12 percent and 5 percent less respectively than in 1981. Meat production was 0.3 percent less than in 1981, egg production declined 14 percent and milk output fell 1 percent. [redacted] 25X1

There was a temporary gain in the size of livestock herds at mid-year, because of increased breeding in the fall of 1981 in anticipation of continued high black market prices. Opportunities for black market sales diminished, however, with the imposition of martial law, and farmers responded to the low state procurement prices and increased fodder shortages by slaughtering more livestock, especially in the last 6 months of 1982. Because of the farmers' actions, the state fulfilled and in some months even surpassed its procurement needs for livestock in late 1982. According to Polish statistics, the number of cattle and hogs at the end of 1982 was lower by 4 and 8 percent respectively, than in December 1981, and the number of sows was down 25 percent. [redacted] 25X1

Despite the good grain crop, the government encountered problems in procuring satisfactory amounts of grain for human consumption through official retail channels. By December, the state had purchased only half of its planned procurements and consequently lowered its estimated total grain purchases from farmers in the 1982-83 marketing season (July 1982-June 1983) from 5.0 to 3.5 million tons. Grain sales were negligible in the last quarter of 1982 even though the regime tried to raise procurements by increasing the amount of coal that farmers could

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buy in exchange. At the same time, the regime reduced the amount of coal farmers could get for livestock sales. [redacted] 25X1

We believe that, if the regime's policies toward agriculture had been more consistent, the sector might have performed better. To win farmer support, the government liberalized inheritance and pension laws and increased the upper limit on the size of private farms. It severely undermined these positive steps, however, by threatening to impose compulsory procurements, especially early in 1982, when military teams were sent to the countryside to inventory grain stocks. Furthermore, the farmer was subjected to the government's austerity program: state procurement prices for farm products rose an average of 21 percent in 1982 while the cost of farm inputs increased by 36 percent and farm services, such as veterinary help and tractor rentals, rose by 330 percent. The regime estimates that the real income of private farmers decreased by at least 20 percent in 1982. [redacted] many farmers were disgruntled over the decline in real income, blamed the government for shortages and high prices of inputs, and consider the prospects poor for private agriculture in Poland. [redacted] 25X1

Consumption Drops. The government enacted a severe consumer austerity program in 1982. Retail prices--which had been held relatively stable for a decade despite the jump in money incomes--were boosted sharply in February, and enterprises were allowed to increase prices of many consumer goods throughout the year. Polish statistics show that in 1982 overall retail prices increased by over 100 percent compared to the previous year, while the average wage, including compensation for the price hikes, grew 55 percent. For the year as a whole, real wages of workers declined about 23 percent below 1981 and per capita consumption of goods fell by 13 percent--to roughly the 1972 level. Supplies in the state markets declined 18 percent in 1982 while overall state retail sales (at constant prices) dropped 17 percent (food sales declined 16 percent, other consumer goods 22 percent). Market supplies of meat and fish fell 14 percent each, poultry 64 percent, coffee 17 percent and spirits 12 percent during the first nine months of 1982 compared to the first nine months of 1981. The amounts of wool textile goods for sale in state markets declined by 44 percent from 1981 levels, shoes 14 percent, passenger cars 15 percent and refrigerators 13 percent (see table 3). Rationing continued, and at the end of 1982 rationed items accounted for 70 percent of food sales and 30 percent of consumer goods sales. [redacted] 25X1

The price hikes in February 1982 helped for a short time in balancing supply and demand. But inflationary pressures grew again because of increases in wages and social benefits, including wage hikes granted by some enterprises late in 1982

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exercising their new freedoms under the regime's economic reform legislation. The Polish press reported that the amount of cash and savings held by the populace, which had fallen from an equivalent of 6 months personal income at the end of 1981 to 4 months in June 1982, grew steadily in the latter half of the year. Polish economists estimate that the purchasing power of the population still exceeded the supply of goods and services by 15 percent at the end of 1982, about the same as a year earlier despite the temporary narrowing of the gap after the price increases in February. [redacted] 25X1

The price increases had an uneven impact on different segments of the population. Polish press articles claim that a small group of people--private businessmen, speculators, artisans, and professionals--still had considerable purchasing power. On the other hand, many Polish officials believe the average Polish worker has experienced acute economic hardships because of price increases. A government study in late 1982 found that because of high prices 27 percent of the families surveyed did not purchase their meat rations, 34 percent did not buy their allotment of flour and grain products, and 27 percent abstained from their ration of liquor and cigarettes. Some Polish priests in December 1982 reported an even bleaker year, estimating that 40 percent of their parishioners' ration cards for basic foodstuffs were unused each month because of high prices. Pensioners were especially hard hit: the regime estimates that the cost of living for the elderly increased 115 percent in the first six months of 1982 compared to the previous year, while benefits rose only 36 percent. [redacted] 25X1

The housing shortage also worsened in 1982, according to Polish officials, mainly because of the scarcity of construction machinery and raw materials and the low productivity of workers. Polish statistics indicate that housing construction dropped from 278,000 units in 1979 to 120,000 in 1982. The regime announced that in mid-1982 two million people were waiting for apartments compared to 1.7 million at the beginning of 1981. The estimated waiting time for a newly married couple to get their own apartment or house--15 years in the 1970s--has stretched to 20 years, while the wait for home furnishings ranges from 2 to 3 years. [redacted] 25X1

Economic Reform Stalls. Under martial law, the regime made little progress in implementing economic reform. As outlined in the Polish press in mid-1981, the reform tried to stimulate efficiency and growth by granting enterprises new freedom to make decisions on production, investment, and hiring. Enterprise behavior is to be guided primarily by market forces, with the central authorities maintaining control through the use of taxes, interest rates, and other financial instruments. Under the

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reform, profitability is to be the major criterion of success: unprofitable enterprises would be denied bank credit for operations or investment and ultimately would be forced to close, while profitable firms would be able to borrow and expand. Workers would have a major voice in enterprise decisions through independent workers' councils and trade unions. Wage hikes would be linked to increases in productivity of the individual worker. While the retail prices of most necessities would be centrally controlled, the majority would be set by the enterprise taking into account world prices. [redacted] 25X1

Although parts of the reform were implemented in January 1982, the measures were severely undercut by the regime's tight martial law controls and its cautious approach to making changes. The regime increased central controls over much of the economy by appointing military commissars to run the more than 200 militarized large factories and by expanding an existing network of special plenipotentiaries to supervise the production of vital goods. Using "operational programs," devices for centrally allocating scarce resources, these plenipotentiaries began to control the movement of more than one-half of industrial output, virtually all Western imports, and 22 critical domestic industrial inputs, including coal and electricity. Enterprise managers scrambled to belong to an operational program in order to obtain necessary inputs. Meanwhile, most factory production goals continued to be set by the Planning Commission on a quarterly or even monthly basis. [redacted] 25X1

The martial law government's cautious approach to reform often perpetuated old central administrative controls in new forms. For example, the plenipotentiaries maintained control over factories in much the same way as the industrial associations--a middle layer of planning and management that exercised significant control over groups of factories--which had been abolished in 1981. Moreover, the plenipotentiaries usually were former association heads and often performed their old duties using the same office space and staff. Meanwhile, the regime allowed factories to form new voluntary associations, and these bodies continued to wield significant powers. According to a Polish official, ministries relied heavily on the new associations to relay orders to enterprises; many factories joined in the associations because they preferred taking orders to taking initiative. According to a Polish economist, the associations provided many factories shelter from the economic pressures let loose by reform. The associations could shift profits among member enterprises, allowing highly profitable firms to avoid steep taxes and permitting unprofitable ones to escape heavy penalties. [redacted] 25X1

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The government also failed to implement fully key measures regarding the reform of producer prices and factory self-financing. Central planners were concerned about intensifying inflationary pressures and permitting some firms to earn exhorbitant profits while forcing others into bankruptcy. The government generously subsidized factories that were denied bank credits, allocating 46 percent of the national budget or 1.2 billion zlotys, for this purpose in 1982. As of late March 1983, eleven enterprises had been closed because of financial difficulties. Moreover, government efforts to prevent unusually high factory profits caused other problems. To counter profiteering, the government levied a number of new taxes on enterprises--including a progressive income tax ranging as high as 90 percent--that seriously weakened the profit incentive. As Polish economists have pointed out, the failure to reform producer prices or to discontinue subsidies has made it difficult to determine which firms are really profitable. 25X1

Some reform measures, in our estimation, were poorly formulated and had negative side effects. Planners, for example, had assumed that enterprise interest in maximizing profits would prompt them to eliminate excess labor. To facilitate this process and to avoid large-scale unemployment, the government instituted a liberal early retirement program in early 1982. As a consequence almost 500 thousand workers--many of them highly skilled--retired in the first six months of the year. The economy began to suffer from what we believe are real shortages of skilled labor, despite the low level of economic activity compared to earlier years. In late 1982, there were more than 300 thousand job vacancies--about 100 thousand more than the previous year--and many managers complained that shortages of labor were more of a constraint on production than shortages of materials. Enterprises continued to hold on to some redundant labor, however, partly because the new tax regulations allowed enterprises greater profits if they had large numbers of low salaried workers. 25X1

The regime has not been willing to grant significant powers to its newly-formed trade unions and workers' councils, largely, in our view, because of its concern about maintaining control in the wake of the Solidarity experience. In January 1983, the government retracted an earlier pledge to consult with the trade unions on procedures for allowing workers a larger voice in the selection of factory directors. Instead, it unilaterally published a list of 1,400 enterprises where directors would continue to be appointed by the state. The law on workers' councils is similarly restrictive, providing for the abolition of councils that violate "basic social interests" and suspending the right of workers' councils to appeal decisions concerning the enterprises. In any event, many workers are refusing to

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participate in the councils or the unions. According to Deputy Premier Rakowski, in January 1983 the courts had registered 4,000 new factory unions, but only 10 percent of the workers in socialized industry had joined the organizations. Only 40 percent of enterprises had reactivated workers' councils. [redacted] 25X1

<u>Trade and Payments with the West</u>. The Polish financial crisis continued in 1982 as the regime failed to cover most of its debt service requirements despite a trade surplus (see table 4). According to Polish statistics, imports from the West on a customs basis declined 23 percent, and exports increased 4 percent in 1982, boosting the trade surplus to $1.4 billion, compared to $26 million in 1981. Imports were purposely cut by the regime to cover repayments required by the bank rescheduling. Polish officials claim, however, that the purchase of imports was hindered because they were forced to pay cash immediately for goods, but did not receive immediate payment for exports because it extended normal short term trade credits. Polish statistics bear out this claim, showing a $800 million surplus with the West on a customs basis in January-June 1982 but only a $100 million surplus on a payments basis. [redacted] 25X1

Imports of food, other agricultural goods, and raw materials fell drastically in 1982. The volume of investment imports dropped 47.5 percent, production imports fell 11.4 percent and imports for the domestic market declined 11 percent. Grain imports--mostly from the West--declined from 6.8 million tons in 1981 to 4.1 million tons in 1982. The large jump in coal exports-from 7.9 million tons in 1981 to 16.0 million tons in 1982--and smaller increases in copper and coke sales were offset to a great extent by substantial drops in exports of zinc, consumer goods, and food. [redacted] 25X1

Poland failed to make good on threats to redirect trade from the West to socialist countries in retaliation for Western sanctions. According to Polish statistics, Warsaw sent 54 percent of its exports to socialist countries in 1982 compared to 59 percent in 1981. Poland received 64 percent of its total imports from these countries in 1982 compared to 65 percent in 1981. The Poles were not able to increase the share of imports from socialist countries because many Western inputs did not have substitutes in CEMA countries. Warsaw probably increased the share of exports to the West to import hard currency goods and pay financial obligations. [redacted] 25X1

Warsaw owed Western creditors $11.2 billion--nearly twice the value of its exports. Its obligations included $9.8 billion in debt service due in 1982 under original loan contracts and $1.4 billion in unrescheduled obligations carried over from 1981 and payments due under 1981 debt relief agreements concluded with

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private and government creditors. Poland was able to pay only about $2.2 billion, and reschedule less than $3 billion leaving a financial gap of some $6-$7 billion. According to Polish data, the regime was granted $1.7 billion in credits including $1.5 billion of Western guaranteed credits and ran a $700 million current account surplus exclusive of interest. An agreement with private banks rescheduled 95 percent of 1982 principal obligations--worth $2.3 billion--and required Poland to pay $1.1 billion in 1982 interest in three installments--19 November, 20 December, and 20 March 1983. The banks agreed to provide Warsaw with one half the value of interest payments in short-term credits. 25X1

Poland ignored payment of any debt service due to Western governments in 1982 and paid very little of the interest due under the 1981 Paris Club rescheduling agreement. Warsaw justified its nonpayment by citing the government creditors' refusal for political reasons to discuss debt rescheduling. For most of the year, Poland pressed Western government creditors to open debt rescheduling talks. Poland, however, ended the year with $4.4 billion in arrears to Western government creditors and limited prospects for a government rescheduling in 1983. Given the creditors' desire to receive a net flow of Polish payments, Warsaw is unlikely to get the rescheduling terms and new credits it wants from the governments. 25X1

Less Aid From the East. Poland continued to receive economic aid from the USSR and the other CEMA countries in 1982, but this assistance was less than in 1981 and did not compensate for reduced Western inflows. According to Polish press reports, Moscow in 1981 allowed Poland to run the equivalent of a $2 billion trade deficit, extended $1 billion in hard currency loans, and permitted the refinancing of previous ruble loans. In 1982 the Soviets allowed Warsaw to run a soft currency trade deficit equivalent to $1.2 billion and supplied only about $44 million in hard currency to buy Western parts for ships and cars destined for export to the USSR. The Soviets continued to sell raw materials to Poland at more favorable prices than in the West (for example, crude oil at price 40 percent lower than they could have earned in the West). They also loaned Poland 500 thousand tons of wheat, corn, and rice and provided above-plan deliveries of raw and semi-finished materials equivalent to $150-200 million to boost production in idle factories. The latter provision, although helpful to the Polish economy, cannot be considered entirely as aid since the Poles paid for these materials by shipping to the USSR a large part--at first 85 percent, subsequently 50 percent--of the factories' output. 25X1

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We believe the lower level of hard currency aid reflects Soviet efforts to stabilize their own hard currency position while helping the Poles avoid economic collapse. Various reports indicate that Moscow had threatened even more severe cutbacks in 1982 aid during trade negotiations in the fall of 1981. At that time, perhaps out of chagrin over trends in Poland, Moscow warned that trade would have to be brought into balance in 1982. We believe that this hardline position may have been a negotiating tactic intended partly to encourage the regime to take stronger actions against Solidarity. After the imposition of martial law, the USSR agreed to let Poland run a larger deficit than actually incurred in 1982. The deficit was less largely because Poland cancelled imports of Soviet machinery destined for defunct Polish investment projects (see figure 4). 25X1

The non-Soviet CEMA countries provided Poland only negligible aid in 1982. Warsaw's trade with its East European allies was roughly in balance, but according to the Polish press, some East European countries, such as Bulgaria and Hungary, did provide Poland with small amounts of hard currency to buy Western inputs for products exported to their countries. East European promises to help Poland complete major investment projects, probably in return for a share of potential output, had made little headway as of the end of 1982, according to Polish press reports. Hungary had volunteered to finish 15 projects, Romania 5, Bulgaria 5, and Czechoslovakia 7. 25X1

Prospects For 1983

Poland faces another difficult year in 1983. The government's preliminary plans call for a 2.0 to 2.5 percent growth in national income and a 4 percent growth in industrial production--goals which, even if achieved, would recover only one fifth of the decline since 1978. Coal production is slated to remain at the 1982 level, but production of other raw materials for industry is scheduled to increase. Polish planners foresee growth in agricultural production of almost 2.3 percent in 1983, even though livestock production is expected to fall. The regime apparently intends to try to hold purchasing power roughly constant this year: retail prices are scheduled to increase 15 percent, while wages are expected to increase 15 to 16 percent. 25X1

Warsaw's success in achieving its national income and industrial production goals this year will depend heavily on how the regime distributes its scarce hard currency earnings between payment of debt obligations and purchase of necessary Western imports. If Poland imports the same level of goods--keeping industrial imports as a priority--and runs the same surplus in 1983 as in 1982, the country could meet its industrial growth

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target. On the other hand, if policymakers choose to pay more of Poland's debt service obligations by running a larger trade surplus than in 1982, the import cuts needed to run a larger surplus would result in growth below projected targets. Fulfillment of the industrial plan will be helped by the government's extension of the workweek to 46 hours in key enterprises and its encouragement of overtime in factories with sufficient raw materials. Continued militarization of some enterprises and restrictions on changing jobs may also help boost output. 25X1

The planned growth in agriculture, however, will be difficult to attain because of continued declines in livestock numbers and unfavorable winter crop prospects. Polish officials have said that because of bad weather last fall, much of the winter crop--normally 60 percent of total grain production--will have to be resown in the spring, thus reducing yields. We believe the government will continue to have problems procuring grain from private farmers because farmers are keeping the grain to feed their own livestock. Polish officials have already pledged to fill the supply gap by buying Western grain, most likely by using barter deals and short-term credits available through the 1982 rescheduling agreement. 25X1

We believe consumers will experience a further erosion in their living standards in 1983 because supplies of meat, milk, eggs, cheese, and grain products will probably decline below 1982 levels. Although Polish officials claim that rationing of some food items will be phased out this year, meat will continue to be rationed. The regime estimates that meat consumption will fall in 1983 below the average 55 kilograms per capita consumed in 1982 (far below the 74 kilograms per capita consumption in 1980). Furthermore, the gap between supply and demand is expected to widen in 1983. Despite the limited supply of consumer goods, the regime plans to impose only minor price increases while allowing wages to rise by about 15 percent, which will not reduce the large money holdings. 25X1

The Soviet Union has promised to permit Warsaw to run a trade deficit equivalent to \$1.7 billion this year compared to \$1.2 billion last year. By the end of 1983, according to the Polish press, Poland's debt to the USSR--mostly in rubles--will total close to \$7 billion. Moscow has also pledged major concessions in the structure of trade, allowing Poland to export to the USSR more machinery and fewer consumer goods and foodstuffs desperately needed at home, while increasing by 15 percent the amount of Soviet raw material deliveries. 25X1

Warsaw will continue to have problems in meeting its debt repayments to Western banks and governments in 1983. The huge

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carryover of arrears from 1982 will leave Warsaw with $13.9 billion in debt service due this year, including:

- o $4.4 billion in arrears from 1982.
- o $5 billion in principal payments due this year on medium- and long-term loans under original loan contracts.
- o An estimated $3.8 billion in interest, including charges on rescheduling agreements.

If the Poles run a current account surplus (excluding interest) of about $1.0 billion in 1983, as planned, Warsaw would have a $12.9 billion financing gap. Since the outlook remains poor for new credits, the financing requirement presumably would continue to be covered by debt relief, either under formal agreements or by creditors' continued tolerance of arrears. 25X1

Warsaw's projected payments capacity will be virtually exhausted if it covers obligations due under the 1981 and 1982 rescheduling agreements. In 1982, Warsaw placed highest priority on meeting payments called for under the 1981 agreement and made the payments more or less on time. Making timely payments may be more difficult this year, if only because Warsaw will have to spend about $400 million more to service both the 1981 and 1982 rescheduling agreements. On the other hand, the amount of principal payments to banks to be rescheduled in 1983 is $1.2 billion less than last year, and interest on unrescheduled debt will be lower because of expected lower interest rates and reduced amounts of exposure not covered by debt relief. 25X1

Warsaw owes Western governments some $7 billion this year including 1982 arrears. If Western governments decide to provide debt relief, Warsaw will ask them to reschedule obligations for the rest of the 1980s. Some governments are anxious to reschedule so that they can receive at least some payments, but the Poles probably would ask for total or near-total debt relief plus billions of dollars in new money as well. At best, the governments would compete with the banks for what promises to be a very limited amount of hard currency available for debt service. 25X1

Longer-Term Prospects for Recovery

Polish officials have not yet agreed on all the specific growth targets in the economic plans for 1983-85 and 1986-90. The Sejm, however, approved preliminary guidelines in December 1982 which call for moderate economic growth. The tentative 1983-85 plan--which undoubtedly will change--calls for real national income to grow 13 percent by 1985 compared to 1982; industrial production, 15 percent; agricultural output, 10 percent; and consumption, 11 percent. Investment, however, will remain stagnant at the low levels of 1982. Judging by Polish

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[redacted] 25X1

press reports, planned consumption levels may be adjusted upward in the final plan because of pressure from the discontented populace. More goods for the marketplace, however, would mean less for exports. Growth targets in the period 1986-90 still are being debated. [redacted] 25X1

Perhaps the most important roadblocks to economic growth are Warsaw's external financial problems and its inability to obtain Western credits. The regime must also contend with deep-seated worker distrust, and a legacy of poor investment decisions and inadequate adjustment policies. It faces a continuing imbalance between supply and demand, inefficient government and industrial bureaucracies, and bottlenecks in production capability, energy, and transportation. Agricultural production and food distribution seem likely to remain serious problems, leaving the level of consumption, particularly in urban areas, highly vulnerable to crop fluctuations. Even under the most optimistic assumptions, living standards will not improve enough to regain previous levels soon, or to spur worker productivity. [redacted] 25X1

Some Positive Factors

Despite the severity of Poland's economic ills, the country has many basic assets necessary for regaining economic health. It has achieved a 98 percent literacy rate and developed a skilled labor force that ranks tenth in the world in the numbers of scientific and engineering personnel per 100,000 people. Poland possesses abundant deposits of copper and sulfur, in addition to coal; its' capital stock was substantially updated through Western imports during the 1970s. If key industrial inputs were available and Polish workers better motivated, economic activity could rebound quickly from its current depressed rate. [redacted] 25X1

Two other factors--economic reform and Soviet assistance--could provide important boosts to the economy, although there is good reason to doubt that the benefits will be as great as the Poles may hope. Economic reforms, if implemented consistently throughout the economy, could aid economic growth in a variety of ways. For example, linking wage increases to productivity and allowing firms to retain profits--as the proposed reform calls for--could boost production and stabilize market supplies. Regime support of Western investment in Polish firms, especially

[redacted] 25X1

25X1

those run in Poland by expatriate Poles[6] could also lead to improved market supplies, investment, and hard currency exports. 25X1

We doubt, however, that major portions of these reforms will be implemented anytime soon. As of early 1983, more than a year after the reforms were inaugurated, over 25 percent of the economy still is under tight central control and some sectors, such as coal mining, are still militarized. Furthermore, the authorities are reluctant to allow prices to rise enough to absorb excess purchasing power or to link wages to productivity because of concern over worker reaction. Additionally, Polonia firms recently have been denounced in the Polish press for excessive profit making, and some officials have urged that restrictions be put on their operations. 25X1

Even if the bureaucracy were not resistant to change, the authorities probably would be cautious about implementing economic reform more vigorously because of the likely disruptions to the economy. Material shortages could be exacerbated, for example, during the initial phase of shifting toward a more market-oriented system. Moreover, new policies might be ignored or be incorrectly interpreted by incompetent managers, adding to problems in communication among factories and with the ministries or the national bank. Productive working time in factories might also drop because of discussions of new policies between managers and workers. Moreover, enterprises--working under the reform's definition of profitability--might well continue to raise prices rather than output, as they did in 1982 despite regime attempts to moderate price increases. 25X1

Although the USSR may continue to provide fuels and raw materials to Poland under more favorable conditions than offered to other Warsaw Pact countries this year, the Poles have hinted that the level of assistance will diminish after 1983. Moreover, in 1986, Warsaw is scheduled to begin repaying some of its debt to Moscow--which then may be close to the equivalent of $10 billion. After his return from Moscow in early November, Deputy Premier Obodowski said that Poland could meet this debt obligation by developing several branches of production--such as shipbuilding and building materials--to meet Soviet needs.

[6] These so-called Polonia enterprises are mainly small manufacturing firms entirely owned by foreigners, usually of Polish descent. In 1982, there were 252 of these firms operating under the authorization of 1976 and 1982 laws. They produced 0.3 percent of total industrial output, employed 0.5 percent of the labor force, and earned $10 million in exports. 25X1

25X1

25X1

According to Obodowski, however, each sector chosen would have to export an equivalent of at least $1.4 billion annually to repay Poland's debt. Such close integration of the Polish economy with its Eastern neighbor would weaken significantly Polish capability to export to the West. Moves toward integration presumably will be limited by the degree of Poland's dependence on Western inputs--parts, intermediate products, and some raw materials--that cannot be provided by Poland's CEMA allies. Polish studies estimate that if Poland ended all imports from the West, national income in 1990 would be less than half that in 1980. 25X1

Many Constraints to Growth

Warsaw's efforts to deal with its massive debt obligations will be the major constraint on economic performance. The regime will continue to have limited amounts of hard currency for the rest of the 1980s and must make tough choices between either servicing its debt or importing the inputs necessary for economic growth. Warsaw recently has affirmed its intentions to meet its commitments under existing rescheduling agreements. Interest due under these agreements is estimated at $600 million annually, and Warsaw is supposed to pay back the rescheduled amounts--nearly $7 billion--between 1985 and 1989. Because Warsaw is unlikely to get substantial new credits, it would have to continue to run trade surpluses and hold down imports, which would lead to restricted growth in the 1980s. 25X1

The Poles, realizing their difficult hard currency situation, proposed to the banks a moratorium on the payment of all other principal and interest due in 1983-1990. The banks are sharply opposed to the Poles' proposal and hope to obtain terms requiring longer payments. Assuming that the Poles eventually compromise, the burden of payments to creditors will be even greater than that resulting from obligations under existing rescheduling agreements. 25X1

We believe there is little chance for Poland to increase greatly its hard currency earnings through exports. Most of Poland's manufactured goods already sell for 20-50 percent less than similar Western goods, and the Poles are not doing much to improve product marketability in Western markets. In addition, output of raw materials--which provided almost 30 percent of hard currency earnings in 1981--will increase slowly as a result of the lack of investment in the raw material sector during the last five years. Moreover, exports of manufactured goods are

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dependent in some measure on levels of Western imports.[7] Warsaw could increase exports to the USSR more easily--even though the Soviets are increasingly reluctant to buy second-rate goods--but could not get necessary imports in return. As a result, we do not expect increases in economic growth because of favorable export performance. 25X1

The Poles' current emphasis on increasing consumption at the expense of investment will hold down their economic recovery in the long term. The resulting levels of investment will not allow the Poles to make the major structural changes--giving more emphasis to agriculture and services and less to heavy industry--that they had planned. Many industrial machines will become obsolescent. The Polish press claims, for instance, that 65 percent of the machine tools currently in use will be technologically obsolete (defined as 10-15 years old) in 1990, and the remaining equipment will be obsolete by 1995. Additionally, the Poles have not allocated sufficient funds, in our view, for devising or implementing a conservation program to reduce the use of materials per unit of output. Such a program is essential to the success of the 1983-85 plan: one half of the projected 40 percent growth in industrial production through 1990 is to come from increased efficiency. Moreover, Polish press articles pointed out in January 1983, that the reforms--instead of encouraging efficiency--have actually led to a more wasteful use of fuels and energy by allowing firms to pass on excessive costs to consumers. 25X1

Infrastructure problems will be an impediment to any rebound because continuing investment cutbacks will further weaken these long neglected sectors. For example, a railroad official admitted in December 1982 that, although the rail system was operating at full capacity, it hauled 20 percent less cargo than in 1980. The same official added that one fourth of the country's railroad track and one sixth of its rolling stock need repairs for which there is a serious shortage of parts. Because of these deficiencies, some plants have been forced to sell their

7 We do not have enough data to determine the exact correlation between exports and imports, but Polish economists believe there is a close relationship between levels of imports and industrial production and, in turn, exports. In 1981, when imports of industrial goods declined by 16 percent below 1980, production fell by 17 percent and industrial exports by 16 percent. Industrial performance in 1980 does not show such close relationships. In 1980, industrial imports increased 5 percent, production decreased 3 percent, but industrial exports increased 7 percent. 25X1

25X1

[redacted] 25X1

products at the factory gate or to curb output, according to Polish press reports. State truck transportation also suffers from shortages of repair parts and poorly maintained roads. Hydroelectric stations lack machinery to ensure the generation of electricity during droughts. [redacted] 25X1

Energy is another serious bottleneck. The Chairman of the Sejm Coal Commission has said that hard coal production will not increase above the 1982 level through 1990 because of investment constraints and that maintaining output at last year's level would require the opening of an average of 1.5 new mines annually. Natural gas production--which supplied 5 percent of total energy consumption in 1981 and is particularly vital for the chemical and fertilizer industries--is dwindling due to the depletion of gas deposits. According to Polish statistics, output has already fallen from 8 billion cubic meters in 1978 to an estimated 5 billion cubic meters this year, and Polish economists have warned that production could drop to 3 billion cubic meters by the mid-1980s unless new fields are discovered and developed. Likewise, domestic oil sources--which supplied only 2 percent of total oil consumption in 1981--will be depleted in the 1980s. [redacted] 25X1

We believe the regime will find it difficult to effect further increases in worker productivity because of deep-seated worker distrust and apathy. The regime has been able to stabilize and even increase output by harshly penalizing troublemakers and poor performers and by making limited use of rewards. The effect of such measures probably has about run its course. Workers' inducements will be limited at best under the conditions of austerity which are expected to last at least until the end of the decade. They also will lack an organized outlet for their grievances as provided by Solidarity in 1980-81. [redacted] 25X1

Considering all the above factors, we believe that if external and internal economic conditions do not deteriorate drastically from 1982 levels, Poland may be able to achieve small increases in national income and industrial output in the next three years. But economic performance seems likely to remain below the 1978 level at least until 1986. Moreover, Poland will remain vulnerable to economic shocks. The regime will continually be trying to meet the conflicting goals of stimulating economic recovery, paying creditors, and improving living standards. The result probably will be only a little uneven progress in each area, and a year of poor agricultural weather, failure to secure large scale debt relief and credits, or a revival of worker unrest could lead again to large declines in growth rates. [redacted] 25X1

[redacted] 25X1

Table 1

Poland: Average Annual Rates of Growth GNP by Sector of Origin[1]
(percentage change. constant prices)

	1979	1980	1981
GNP	-1.7	-3.2	-6.6
Industry	-0.9	-1.3	-14.8
Agriculture, Forestry	-5.6	-12.5	2.6
Construction	-4.1	-2.7	-13.1
Transport, Communication	-0.4	2.0	-13.7
Trade	-0.1	-4.4	-8.4
Housing	2.6	3.1	1.8
Government, Other Services	2.5	2.0	2.8

1 L.W. International Financial Research Inc., Research Project on National Income in East Central Europe Occasional Papers, No. 70-74. New York, New York, 1982

Table 2

Main Indices of the Polish Economy

	1978	1979	1980	1981	1982
Industrial Production					
Industrial Production (previous year = 100)	101.6	99.1	98.7	85.2	98.0
Coal (mln tons)	192.6	201.1	193.1	163.0	189.3
Copper (th tons)	332	336	357	327	348
Raw Steel (mln tons)	19.25	19.22	19.49	15.72	14.47
Rolled Products (mln tons)	13.57	13.57	13.55	11.06	10.48
Passenger Cars (number th)	325.7	349.8	351.1	239.9	229.1
Cotton Textiles (mln meters)	919.2	886.0	884.2	788.3	693.1
Wool Textiles (th meters)	124.1	122.9	121.0	106.1	91.3
Agricultural Production					
Grain (mln tons)	21.5	17.3	18.3	19.7	21.2
Potatoes	46.6	49.6	26.4	42.6	32.0
Sugar Beets	15.7	14.2	10.1	15.9	15.1
Cattle (mln) (June census)	13.1	13.0	12.6	11.8	11.9
Hogs (mln) (June census)	21.7	21.2	21.3	18.5	19.5
Investment (previous year = 100)	102.1	92.1	87.7	76.2	81.5
Real Wages (previous year = 100)	97.3	102.0	104.0	101.0	77.4[2]
Consumer Prices (prevous year = 100)	108.7	106.7	109.1	124.4	200.0
Trade With the West[3]					
Exports (mln $)	5,481	6,350	7,506	5,448	5,639
Imports (mln $)	7,368	8,038	8,488	5,422	4,174
Debt (mln $) (Gross)	17,844	22,669	24,840	25,500	24,300

1 Polish Statistical Office, Polish Statistical Yearbook, 1982.

2 Estimate.

3 Customs data.

Table 3

Poland: Supply of Selected Goods to the Market[1]

Foods	1979	1980	1981	Jan-Sept 1982	Jan-Sept 1982 Jan-Sept 1981 = 100
Meat (th. tons)	2005.4	2034.1	1674.7	1103.9	86.2
of which poultry	309.5	331.3	345.9	92.1	36.3
Fish (th. tons)	252.4	271.3	239.8	158.3	86.5
Milk (mln. liters)	2311.7	2389.1	2666.7	2269.0	122.1
Eggs (mln. tons)	2079.8	2275.7	2548.7	1778.3	91.6
Butter (th. tons)	249.7	259.6	247.7	162.2	93.2
Animal Fat (th. tons)	265.0	162.4	144.3	92.3	84.4
Potatoes (th. tons)	1685.5	1335.9	1089.9	682.1	143.8[2]
Sugar (th. tons)	1111.5	1059.4	888.4	721.2	130.4
Bread and Pastry (th. tons)	2706.8	2799.3	3017.0	2255.1	98.3
Coffee (tons)	31751	28721	27511	13229.0	82.7
Spirits (mln. liters)	175.4	184.2	140.0	97.2	88.3
Consumer Goods					
Textiles: Wool (mln meters)	59.0	54.9	44.2	19.9	56.2
Shoes (mln pairs)	65.7	66.9	61.1	39.9	86.0
Radios (th. units)	2192.6	2135.0	2121.2	1098.3	67.4
Passenger Cars (th. units)	217.9	164.6	143.3	95.6	85.4
Refrigerators (th. units)	942.9	708.4	647.6	412.6	86.7

1 Polish Statistical Office. Biuletyn Statystyczny, Warsaw, No. 8, 1982.

2 This figure reflects the average potato crop that was harvested during the fall of 1981 and marketed in late 1981 and 1982. The 1982 crop was about 25 percent below average, and affected supplies in late 1982 and 1983.

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Table 4

Poland: Balance of Payments
(mln US $)

	1981	1982[1]
Current Account	-2,247	-1,093
Trade Account	-433	350
Exports	4,971	4,980
Imports	5,404	4,630
Net Interest	-2,293	-1,830
Other	479	387
Capital Account		
Medium and Long Term Debt		
Repayments	2,352	-5,282
Drawings	-7,282[2]	-6,959[3]
Short Term Debt		
Repayment, Net	-839	-92
Arrears from previous year	0	-573
Gap	573	4,400-6,400

1 Preliminary.

2 Including rescheduled and unpaid amounts.

3 Includes $196 million in short-term credits recycled from interest payment.

POLAND: MONTHLY INDUSTRIAL PRODUCTION INDEX
(SEASONALLY ADJUSTED, NOVEMBER 1976=100)

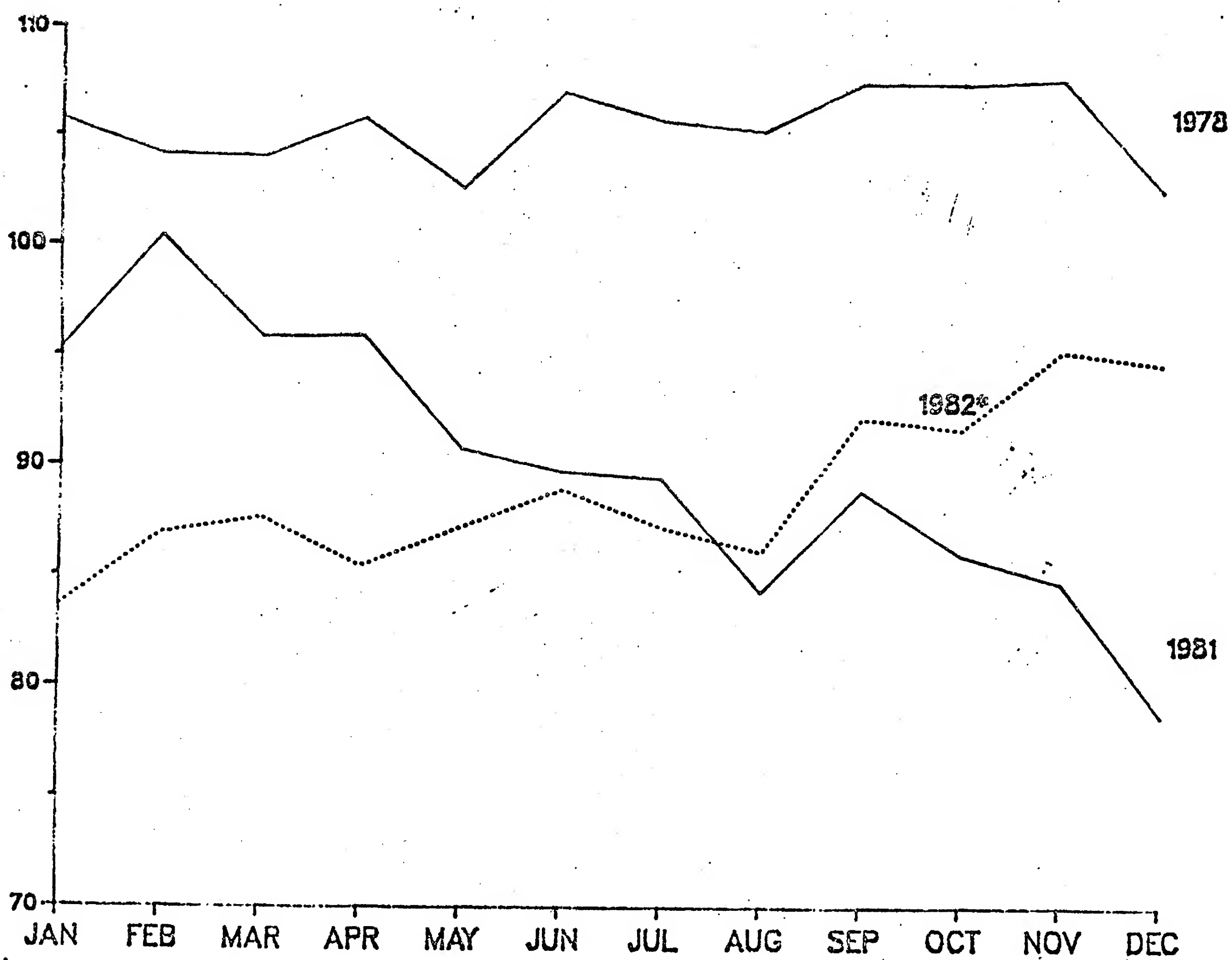


FIGURE 2

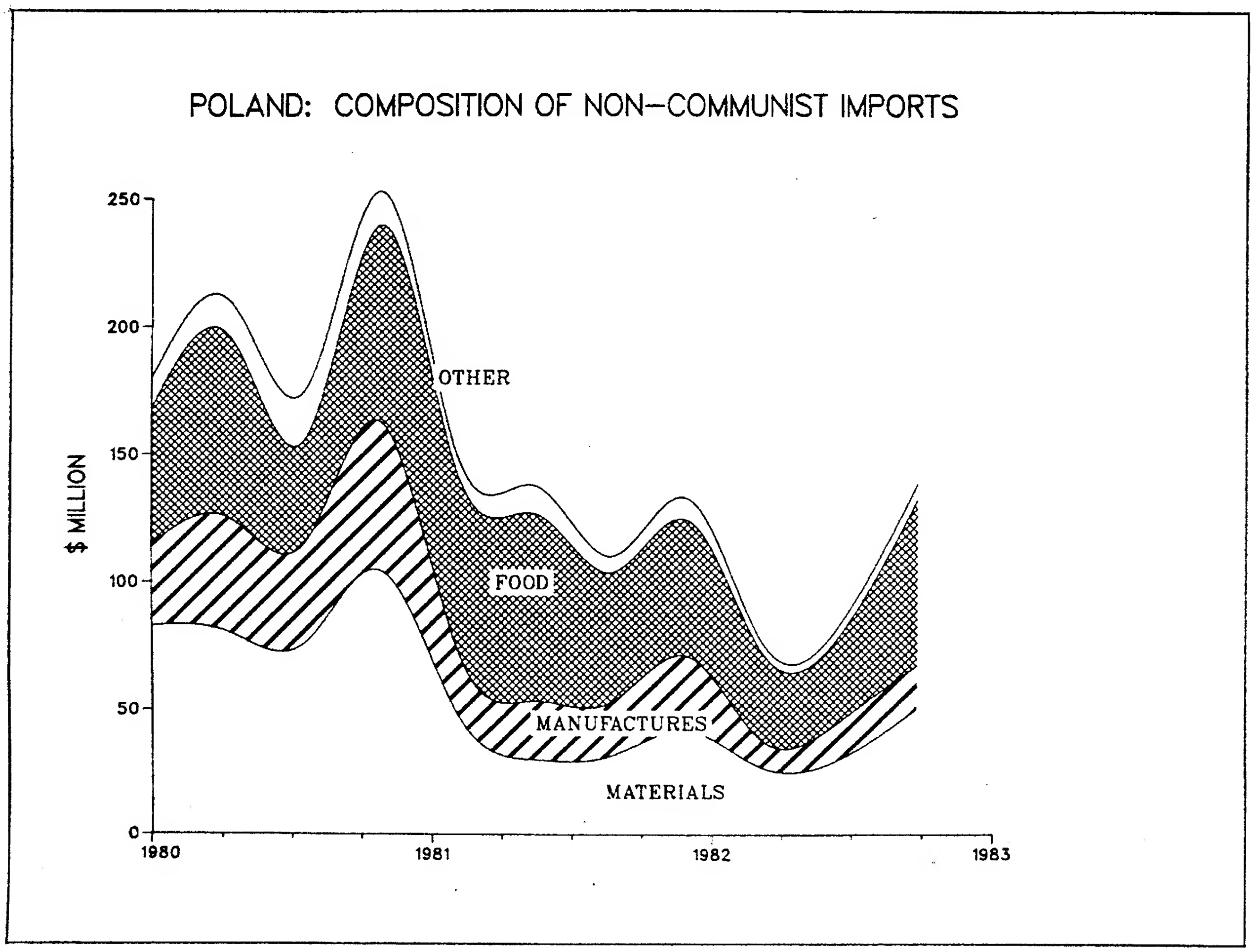

POLAND: COMPOSITION OF NON-COMMUNIST IMPORTS
$ MILLION
250
200
150
100
50
0
1980
1981
1982
1983
OTHER
FOOD
MANUFACTURES
MATERIALS

FIGURE 3

POLAND: TRADE WITH NON-COMMUNIST COUNTRIES*
(SEASONALLY ADJUSTED, MONTHLY DATA)

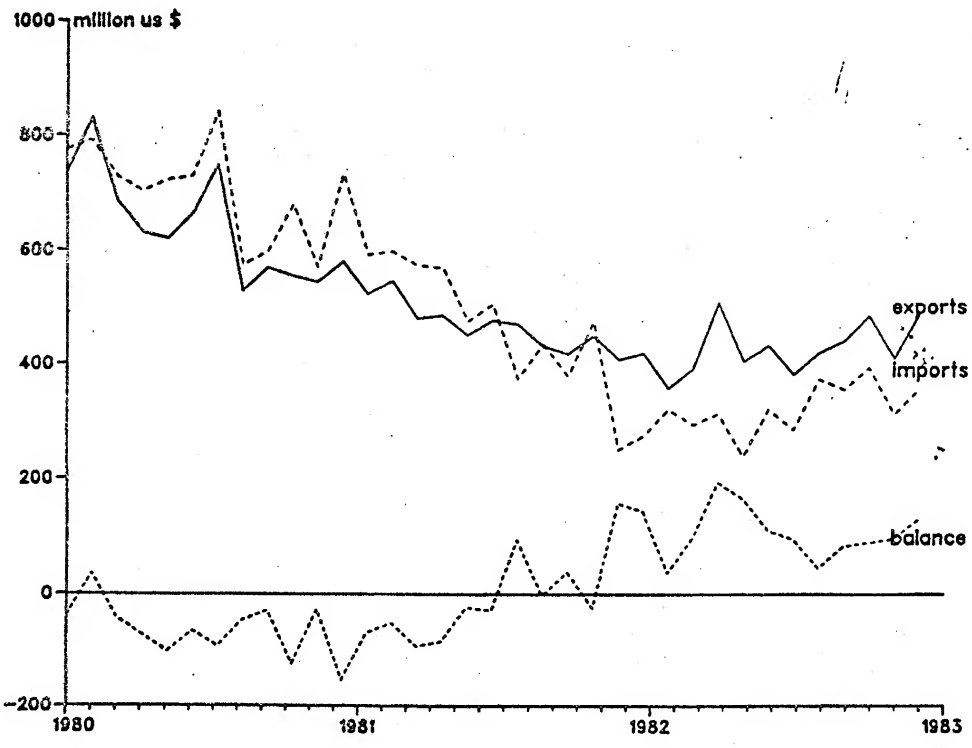
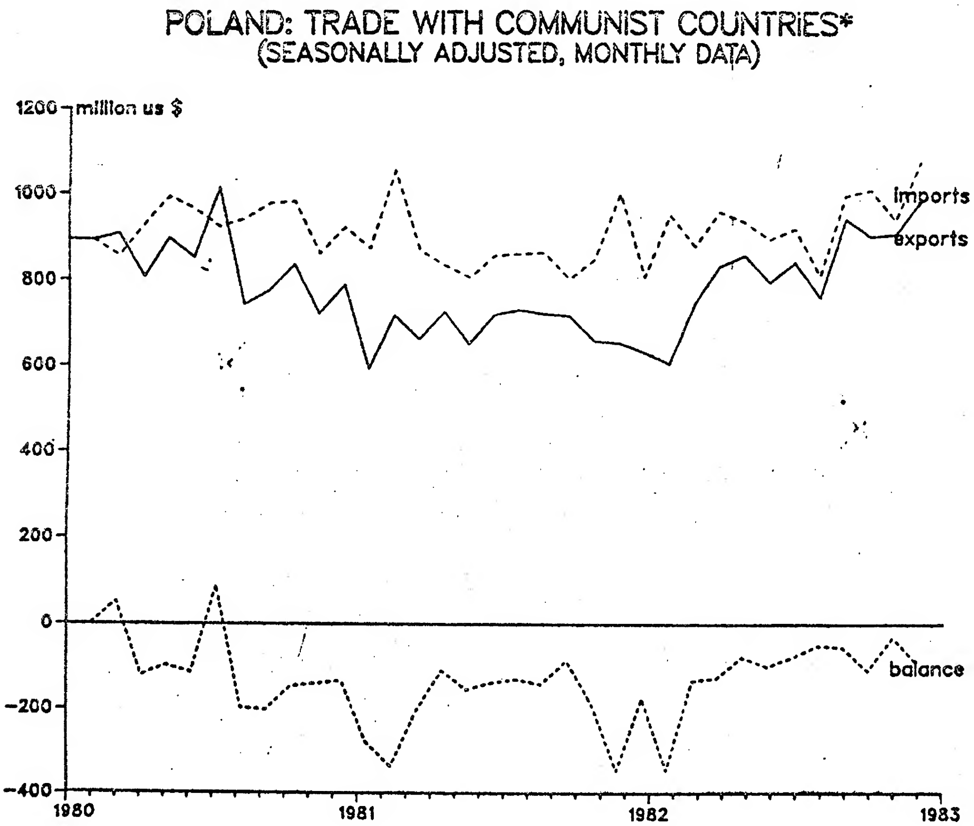


TABLE 4


POLAND: TRADE WITH COMMUNIST COUNTRIES*
(SEASONALLY ADJUSTED, MONTHLY DATA)
million us $
1200
1000
800
600
400
200
0
-200
-400
1980
1981
1982
1983
imports
exports
balance

SUBJECT: The Polish Economy: Performance Under Martial Law and Prospects

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